

## Jail Economics: Why Have Taxes Been Applied to Prison Operations?

刑務所の経済学：なぜ刑務所運営に税金が掛かるのか？

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**Abstract:** The purpose of this essay is to unravel one of the still veiled mysteries about the prison system; the daily cost of one prisoner is about 1,300–1,400 yen. Most inmates work about eight hours every day. Calculating their hourly pay, based on the minimum wage (usually about 800 yen), they can earn 6,400 yen (800 yen × 8 h) per a day. In short, they should be able to cover their expenses (1,300–1,400 yen) with the “money” they can earn. Nevertheless, the prison system claims to “spend a lot of tax money” for living expenses. In doing so, the prison, previously known as a market failure, can be shown to be the government’s failure.

**Keywords:** jail, tax, Steven D. Levitt, the government’s failure

**要旨:** 本稿の目的は、未だベールに包まれている刑務所に関する「謎」を解明することである。受刑者 1 人／1 日のコストは、1300～1400 円程度である。それに対し、受刑者はほぼ毎日 8 時間働いている。時給 800 円で単純計算すると、彼らは毎日 6400 円（800 円×8 時間）を稼いでいる。つまり、彼らが稼いだ「お金」（6400 円）で、彼らのコスト（1300～1400 円）を賄うこともできるはずである。にもかかわらず、実際は、彼らは「税金を使いまくっている」。なぜなのか。この疑問への検討によって、これまで「市場の失敗」と捉えられてきた問題が、「政府の失敗」にもなりかねないことが明らかになる。

**キーワード:** 刑務所、税金、スティーヴ・D・レヴィット、政府の失敗

### Introduction

The purpose of this essay is to unravel one of the still veiled mysteries about the prison system.

As will be shown below, the daily cost of one prisoner is about 1,300–1,400 yen. Most inmates work about eight hours every day. Calculating their hourly pay, based on the minimum wage in each prefecture (usually about 800 yen), they can earn 6,400 yen (800 yen × 8 h) daily. In short, they should be able to cover their expenses (1,300–1,400 yen) with the “money” they can earn. Nevertheless, the prison system claims to “spend a lot of the tax money” for living expenses. Why?

I shall try to solve this mystery by adopting Steve D. Levit's research method: to “answer interesting questions” by using the tools of economics.<sup>[1]</sup> In doing so, the prison, previously known as a market failure, can be shown to be “the government’s failure.”<sup>[2]</sup> These are the issues to be addressed in this paper.

The organization of this paper is as follows:

**Section 1:** How much does one prisoner cost?

**Section 2:** What is penal labor?

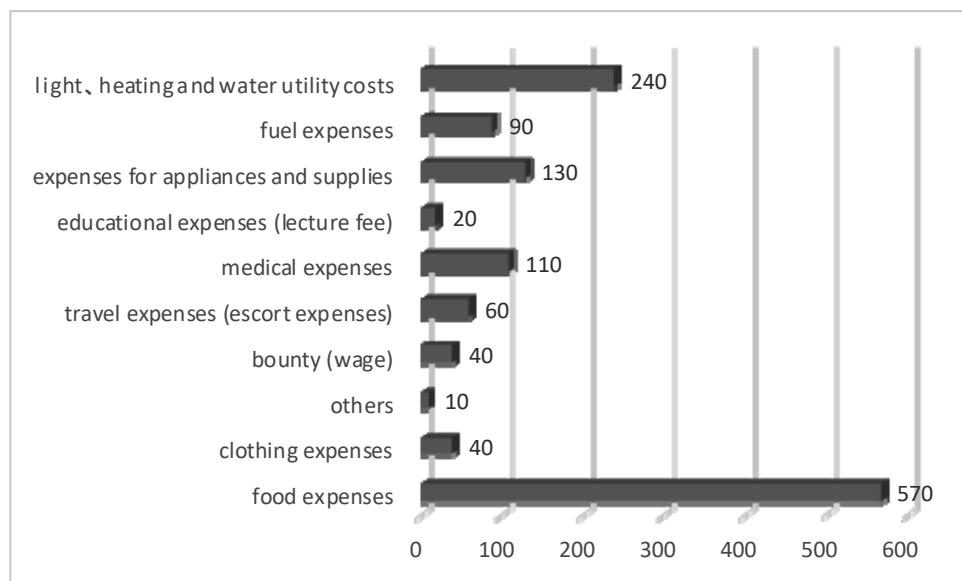
**Section 3:** Inconsistencies

**Section 4:** Why does the recidivism rate not go down?

**Conclusion:** A review of the points covered in this paper

## 1. How Much Does One Prisoner Cost?

Figure-1 the daily cost of one prisoner (unit: yen)



Source) Toshio Sakamoto(2007), p.85.

For use as the premise, we will look at the cost of one prisoner.

Of the many materials available in relation to this cost, I will introduce one of the reliable sources, the “Prisoner Treatment Readout.”<sup>[3]</sup> According to the Readout, the

expenses required for all detainees in the 2008 budget (corrective detention expenses, 矯正収容費) totaled approximately 536,588,550,000 yen. In addition, the average cost per prisoner per day is 1,367 yen. The breakdown of costs is shown below (See Figure-1 too):

1. Food: 524 yen
2. Utilities (light, heating, and water): 304 yen
3. Supplies: 208 yen
4. Medical expenses and so on: 102 yen

It would follow that if prisoners earn sufficient money through prison work, the jail can be managed with the money they earn. However, as mentioned above, a huge tax (about 50 billion yen) has been assigned. Why?

In the next section, we will examine this question more minutely by looking at penal labor, the largest source of income for prisons.

## 2. What is Penal Labor?

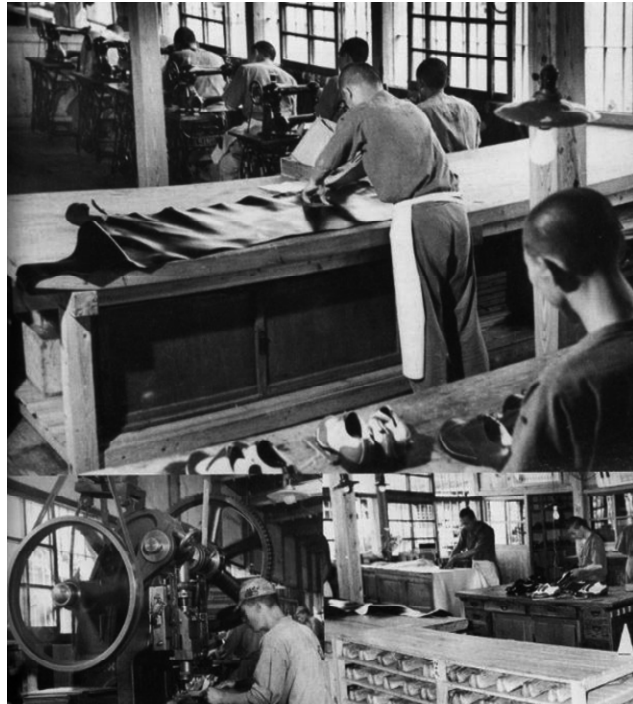
“Penal labor” (inmates’ work) is the prison’s principal source of income.<sup>[4]</sup> The website of the Ministry of Justice explains penal labor as follows.<sup>[5]</sup>

- With regard to penal labor, as of March 2016, labor has been conducted at 77 penal institutions (prisons, juvenile prisons, and detention centers), employing approximately 48,000 people. In addition to prisoners who are employed as prescribed work under the Penal Code (Article 12, Paragraph 2), there are detainees obliged to work as a condition of their sentencing.
- The types of work assigned to prisoners include woodworking, printing, dressmaking, and metal and leather working (Figure-2), according to the aptitude of each person.
- There are four types of penal work:
  1. Production work [生産作業],
  2. Social contribution work [社会貢献作業],
  3. Vocational training [職業訓練], and
  4. Self-employment work [自営作業].

Table-1 life in prison		
	hour	min
get out of bed	6	40
check up	6	45
breakfast	7	00
start work	7	30
rest	9	50
work	10	00
lunch	11	50
start work	12	20
rest	14	50
work	15	00
finish work	16	10
dinner	16	20
check up	16	40
leisure	17	00
go to bed	21	00

(Source) Sotoyama Hitomi (2013), p.36.

Figure-2 penal labor



(Source) Sotoyama Hitomi (2013), p. 55.

The government contracts this work with private companies, and all income generated by this work is assigned to the state treasury. The income from this work in fiscal year 2015 was approximately four billion yen. Contract wages are determined by the contractors under consultation and based on the minimum wage of each prefecture (approximately 800 yen), the skill level of workers, work content, specificities of penal labor, and so on.

The working hours of the inmates are determined not to exceed 8 hours per day (Table-1), in principle, including time for correctional instruction. A payment in recognition of the work is awarded to the prisoner at the time of release, in principle. The average monthly amount of such work awards, in 2015, was 5,317 yen.

For penal work, various benefits are listed, as follows:

- “Criminal work is a national project, hence you can trust us.”
- “You can always procure a certain amount of labor.”
- “There is no need for infrastructure costs, such as warehouses. As a result, you save on direct expenses.”

- “You can manage information thoroughly.”
- “There are no employee welfare-related expenses.”
- “Technical instructors are available.”

The entity responsible for the work is the Corrections Association, who receives orders from companies or customers, purchases necessary raw materials, and consigns production.<sup>[6]</sup> CAPIC (the Correctional Association Prison Industry Cooperation) produces and sells prison goods under the umbrella of the Corrections Association. The products are sold to general companies and customers. A “processing fee” is remitted to the national treasury. The remaining income is used for the next raw material purchase as well as operating expenses.

The above outlines the system of penal work. Using this as a reference, we can examine why earnings cannot cover the individual expenses of about 1,300–1,400 yen per person, even though most inmates working almost 8 hours every day.

### 3. Inconsistencies

In this section, we will address the question: “Why is the jail not able to run on the money prisoners are paid for their work?”

As mentioned previously, contract wages are decided by the contractors under consultation and based on the minimum wage of each prefecture (approximately 800 yen) and so on. However, the actual hourly pay is only about 300 yen at the highest.<sup>[7]</sup> Furthermore, the ratio of production income in comparison with total income has fallen to 14% since 1987.<sup>[8]</sup>

With regard to penal work, “requests for production cuts are dropping under the impact of the first oil shock in 1973” (Table-2).<sup>[9]</sup> As a result, in 1977, self-production system (CAPIC) was introduced in anticipation of non-employment<sup>[10]</sup>. Meanwhile, a change occurred with regard to “service labor.” Service labor for private enterprise (14% + self-production, meaning CAPIC got 86%) emerged. Only 14% (actually less than 14%) would “certainly” be its earnings, went back to the prison system.

Moreover, as there was a “limitation”—that a “contract for the use of penal labor is limited to one company in one industry nationwide,” that ratio never increased again.<sup>[11]</sup>

Table-2 the number of penal labor

year	sum		notes
	cancellation reduction		
	number	person	
1974	290	5,269	first oil crisis
1975	150	2,277	regression
1976	196	3,850	
1977	219	4,015	
1978	136	2,453	
1979	142	2,599	second oil crisis
1980	203	3,043	regression
1981	250	4,023	regression
1982	236	4,123	regression
1983	121	1,818	
1984	128	2,785	
1985	111	2,480	recession caused by the strong yen
1986	214	3,445	
1987	131	2,018	recession caused by the strong yen

Source) Yoshihide Ono (2009), p. 600.

Table-3 transition of inventory (unit: yen)

year	2018	2017
inventory	1,316,718,086	1,275,479,951

Source) made by the author based on CAPIC Honepage (<http://www.kyousei-k.gr.jp/>).

Table-4 revenue and expenditure (unit: 1,000 yen)

revenue		5,206,303
expenditure	Cost of materials	3,464,419
	Payment to the national treasury:	1,018,822
	Remuneration and benefits for executives and staff	465,520

Source) made by the author based on CAPIC Honepage (<http://www.kyousei-k.gr.jp/>).

Of course, if the “self-sales” business had been successful, there would have been no problem securing sufficient earnings, but sales did not go well, for the following reasons: [12]

1. The goods were inferior to products made by professional craftsmen;
2. The price was high; and
3. CAPIC did not actively promote the goods.

Thus, their sales were unsuccessful; sales of products made in prisons across the country continued to fall, up to the present time. They fell by almost half—from 81

billion yen to 45 billion yen.<sup>[13]</sup> For this reason, as can be confirmed in Table-3, only the value of inventory increased, although it is unclear how unit prices are calculated.

According to Table 4, the profits (5 billion yen) were used as follows:

1. Cost of materials: 3.5 billion yen,
2. Payment to the national treasury: 1 billion yen, and
3. Remuneration and benefits for executives and staff: 0.5 billion yen.

In summary, most of the revenue evaporated (i.e., was used) for materials, at an amount considered extremely high “under the condition of the de facto monopoly of the Correctional Association.”<sup>[14]</sup> The amount for staff salaries and benefits represents about 110 employees with an average salary of 7 million yen.<sup>[15]</sup> Thus, only a small sum (1 billion yen) was remitted to the national treasury.<sup>[16]</sup> These data reflect the reason that it was not possible to cover the corrective detention expenses (about 54 billion yen) with funds from jail work revenue (only 1 billion yen). The taxes are being spent on running the prisons.

#### **4. Why Does the Recidivism Rate Not Go Down?**

This section addresses another problem not previously examined: “Why does penal work not result in enhancing the inmates’ smooth rehabilitation?”

As is well known, “prisoners’ work is an important treatment measure meant to improve the inmates’ rehabilitation,” but such an objective has not been achieved at all. Why? The primary problem with inmates’ work has been described as follows: “Works that are useful for their resocialization, [...] Um... Nothing! Nothing!”<sup>[17]</sup> Of course, prisons have various production plants—metalworking, paper products processing, printing, shoemaking—that offer “the pleasure of being involved in complicated and advanced tasks.”<sup>[18]</sup> However, the reality is that prisoners do not have the right to choose the type of work, and further, only simple tasks (for example, paper folding) are available, generally called homework. As a result, the work is far from being “an important treatment measure that can return them to society smoothly.”

Moreover, the poor reward for their work is another reason it does not contribute to the resocialization of prisoners. The real wage is “about 700 yen per month; even if you work desperately for one year, you will get only about 24,000 yen per year as your reward.” (Table-5)<sup>[19]</sup>

Table-5 base amount by grade  
(hourly pay)

grade		base amount (yen)
1 grade	→	41.9
2 grade	→	33.1
3 grade	→	26.7
4 grade	→	22.1
5 grade	→	17.7
6 grade	→	15.8
7 grade	→	12.2
8 grade	→	9.7
9 grade	→	7.4
10 grade	→	5.9

Source) Toshio Sakamoto (2007),  
p.52.

Therefore, “When discharged from prison, a prisoner receives a modest reward—20,000 yen to 30,000 yen.” Initially, “he thinks that he will never go to jail again, that he will not commit a crime. But after being out in society, everything seems to go wrong. Why? Because he has no money and no skill [...] Finally, he has no choice but to go back to prison, so he commits offenses again.” These cases are “every day, many times a day.” Specifically, “The ratio of the number of repeat offenders arrested in 2006 was 40-50%. Moreover, the ratio has been increasing in recent years.”<sup>[20]</sup>

In short, 1) small “incentive remuneration” resulted from restrictions, such as “one company one business,” the “poor sales of goods due to lack of PR,” expensive materials, and high staff salaries; and 2) most prison jobs are unskilled work leading to a high recidivism rate.<sup>[21]</sup>

## Conclusion

To summarize, these points are clarified in this paper:

The answers to the question “Why are taxes imposed on prison operations?” are these:

1. The hourly salary of prison work is only about 300 yen.
2. Labor supply to private companies is only 14%.
3. Sales of goods are sluggish due to high prices and the lack of promoting them.
4. Most revenue is diverted to staff salaries and the cost of materials.



In addition, the recidivism rate does not decline, due to poor remuneration and failure to provide training of practical skills, thus, penal work has hardly helped prisoners' reintegration into society.

## Notes

- [1] See Steven D. Levitt, Stephen J. Dubner (2005).
- [2] See Paul R. Krugman, Robin Wells (2009).
- [3] Kamosita Moritaka (2010).
- [4] Kyoichi Tsuzuki (2008); Kuraki Keiki (1988).
- [5] Kyoichi Tsuzuki (2008), p. 9.
- [6] Kitazima Keisuke (Feb, 2004).
- [7] Nobuo Takehara (Jun 22, 2016).
- [8] Kuraki Keiki (1988), p. 924.
- [9] Yoshihide Ono (2009), p. 600.
- [10] Yoshihide Ono (2009), pp. 600–601.
- [11] Nobuo Takehara (Jun 22, 2016).
- [12] Yoshihide Ono (2009), p. 600.
- [13] *Nikkei Business ONLINE* (Dec 14, 2012).
- [14] Federation of Bar Associations (Feb 15, 2008).
- [15] Federation of Bar Associations (Feb 15, 2008).
- [16] *Nikkei Business ONLINE* (Dec 14, 2012).
- [17] Egawa Syouko (Aug 20, 2016).
- [18] Egawa Syouko (Aug 20, 2016).
- [19] Kamosita Moritaka (2010), p. 181.
- [20] The Ministry of Justice (2006), pp. 31-53.
- [21] Sigeki Okamoto, Takahumi Horie (Dec 17, 2013).

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